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23 SEP 1988

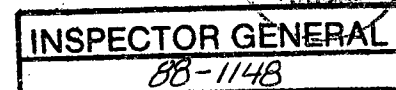
OIT #0934-88

23 SEP 1988



MEMORANDUM FOR: Inspector General

FROM: Edward J. Maloney  
Director of Information Technology



SUBJECT: IG Inquiry Regarding Terminal Maintenance in Purchase  
Contract, dtd 10 August 1988, IG 88-0873

*Biel*

1. I appreciate the opportunity to clarify the maintenance provisions of the workstation contract with International Technology Corporation (ITC). I apologize for the tardiness of our response, but I was not satisfied with the first draft and sent it back for additional work.

2. In awarding the contract to ITC, we did not tie ourselves to a single vendor for equipment repair. The Agency in preparing the Request for Proposal had three options regarding maintenance of the purchased equipment.

a. Fixed Fee. Under the fixed fee option, the Agency pays the vendor an established fee during the life of the contract based on the number of devices under maintenance regardless of the repairs required. The vendor is responsible for providing a sufficient number of technicians and spare parts to guarantee the minimum response time specified in the contract. Examples are two Agency fixed fee maintenance contracts with WANG and IBM. The advantage of such a contract is the predictability of costs.

b. Cost Plus Award Fee. Under the cost plus award fee option, the Agency reimburses the vendor for its costs and pays an award fee based on performance. An example is the Agency's competitively awarded cost plus award fee contract with the Eaton Corporation to maintain the Delta Data terminal. An advantage of such a contract is that one cleared vendor can be tasked with complete system maintenance thus enhancing security over having to clear numerous technicians employed by several vendors each responsible for only a portion of system maintenance. Another advantage of such a contract is its flexibility as new workstations are added and greater Agency control over the quality of service.

c. Repair and Return. Under the repair and return option, the Agency pays the vendor an established price only for the repair or replacement of a component part that fails. Such a contract generally is used for the repair of failed circuit boards that have been removed by another vendor under a separate contract.

3. Considering the three maintenance options with ITC, we determined that a repair and return contract was best suited to the Agency's needs. Pricing was a major consideration in the overall evaluation of ITC's bid. Under this contract, although ITC is obligated to repair failed parts, the Agency is not required to use ITC's services. Because the circuit boards and other hardware are mostly off-the-shelf items, the Agency can competitively

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DATA REGISTRY 88-20  
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purchase replacement devices or have repairs made by any vendor it chooses. Moreover, the purchase contract requires ITC to provide the Agency with schematic drawings and part numbers of the purchased hardware, thus facilitating the use of third party vendors. The maintenance contract with ITC is for five years, the current contract year plus four.

4. The total maintenance program for the ITC workstation also involves the Eaton Corporation which, as mentioned above, maintains the Delta Data terminal on a cost plus award fee contract. The Eaton contract has been expanded to cover maintenance for the new ITC terminal to the "board level." This means that on finding a defective circuit board or other part Eaton may either remove and return it to ITC or another vendor for repair or replace it with a new device. Eaton is required under the contract to maintain an adequate inventory of spares to prevent excessive down time.

5. The cost of maintenance in any contract will continue to be one of our major concerns to prevent excessive charges by vendors making up for discounts on the price of the equipment. I hope this answers the questions raised in your note.

[Redacted Signature]

Edward J. Maloney

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C/MMD/CSG/OIT/ [Redacted]

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INSPECTOR GENERAL

IG 88-0873  
10 August 1988

NOTE FOR: Director of Information Technology

Ed,

With respect to the competition to determine a standard terminal, PC or whatever, have ongoing maintenance costs been factored in? Said another way, in the RFP did we deal with maintenance issues (costs) over five years after we buy?

I ask this question because the State IG, I am told, recently sent back to the drawing board a competition on the basis of possible "waste" of government funds because the RFP did not include O&M for the succeeding five/ten years. State had not taken a long enough view when drafting its RFP. Are we guilty of this too?

Comments please.



William F. Donnelly

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